



Memorandum

TO : Secretary **DATE:** May 29, 2003

FROM : Commissioner Won

SUBJECT : Docket No. 02-15 - Passenger Vessel Financial Responsibility;
Meeting with Royal Caribbean Cruises Ltd., 5-21-03

On Wednesday, May 21, 2003, I met with Richard Fain, the Chairman and CEO of Royal Caribbean Cruises Ltd. (RCL), Messrs. Michael G. Roberts and Hopewell H. Darneille III of the law firm of Thompson Coburn LLP, and Jack Deschauer of the law firm of Patton Boggs LLP, at their request, to hear RCL's views on the proposed revisions to the Commission's passenger vessel financial responsibility regulations, 46 C.F.R. Part 540.

Mr. Fain stated RCL's support for the Commission's efforts to strengthen consumer protection for cruise passengers, and stated that this is a shared concern and goal of the cruise lines. He stated that this is not just a matter of words. Rather, it is backed up by cruise line actions, including (1) making customer service a priority, with a goal not just to resolve complaints, but rather to satisfy and "win back" the customer, (2) going beyond legal requirements to refund monies, to also grant discounts on future cruises, in the rare event of cruise nonperformance due to an unforeseen event, and (3) efforts to work with travelers defrauded by bankrupt travel wholesalers or others who never forwarded funds on to the cruise line on which the traveler thought he or she had booked a cruise. He proudly noted the industry's high 94 percent consumer satisfaction rating.

Mr. Fain stated that the consumer protection issue is much broader than the financial responsibility issues addressed by the proposed rulemaking, and expressed his hope that the Commission and industry will be able to work together to address the broader issues once the current rulemaking is completed. However, he characterized the current proposal as a nuclear bomb threatening the industry that makes it difficult to focus on broader concerns. He emphasized the importance of this rulemaking to RCL, stating that this was only the second time in his 17 years as CEO of RCL that he had traveled to Washington to address a specific issue of concern to RCL.

Mr. Fain stated RCL's strong opposition to both (1) the proposed elimination of the UPR coverage ceiling, and (2) the rulemaking's alternative disputes resolution (ADR) proposal. With respect to the former, Mr. Fain discussed the major changes in the banking and insurance industries over the past five years, particularly in the aftermath of 9/11, and stated that today there is not the available capacity to cover the proposed increased coverage requirement through bonds or guarantees. This means that even the large cruise lines would have to escrow funds to provide the proposed coverage. This would impose two costs on the cruise lines. The first cost would be the approximate present 7 percent differential between the cost of borrowing the amounts needed to fund such accounts and the minimal interest that could be obtained on such funds. The second, and more important, cost would be the adverse impact on cruise line capital liquidity. Mr. Fain stated that the diversion of such large amounts of capital, in addition to raising costs, would adversely impact cruise line vessel building programs and service alternatives. This, in turn, would adversely affect competition, and reduce consumer choices.

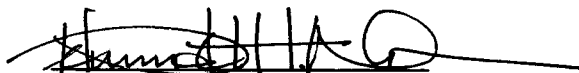
Mr. Fain stated that the risk of passenger loss due to nonperformance by a major cruise line is *de minimis*. This is because not only would the cruise line have to fail, but also the vessels would have to stop operating. This, he stated, is not a realistic possibility, given the huge investments and value in today's modern cruise vessels, and their low marginal operating costs. These factors would strongly motivate creditors to keep operating the ships, and to honor passenger bookings. Mr. Fain contrasted the situation of the recent cruise failures, involving companies operating low value, aging vessels, with high operating costs, that could not compete and made more sense to shut down. Finally, he stated that even if the first two steps (failure and cessation of vessel operations) somehow both occurred, the cruise line would have to be insolvent before the passenger would be at any risk of losing cruise deposits. He described this as highly unlikely, given the substantial investment and equity of today's major cruise lines.

Mr. Fain stated that, despite its huge costs, the present proposal would not have benefitted past individual passengers or enabled them to recover any additional monies. Moreover, he noted that, from the passenger's perspective, the Section 3 coverage is incomplete and of only limited value in view of passenger payments that are not covered by such coverage (e.g., foreign departures, air fare, pre-and post-cruise ground stay costs). Mr. Fain stated that the current regulations are the product of careful consideration by the Commission over many years, and expressed his strong hope that the Commission will move cautiously and consider all the implications before proceeding with such a radical departure from past interpretation and practice. He urged that the Commission undertake a thorough cost/benefit analysis, considering all related costs, before determining to proceed with this proposal.

As to the related credit card issues, Mr. Fain stated that the Commission, in determining how much UPR coverage is needed, should take "judicial notice" of the fact that almost 70 percent and increasing percentage of cruises are purchased with credit cards and that the Fair Credit Billing Act mandates certain consumer protections for such purchases. However, he urged that the Commission not single out and treat credit card companies differently. He expressed concern that the present proposal could change the dynamics of the cruise lines' commercial relationships with credit card companies. He also stated concern as to the burden and costs that the proposed tracking of credit card payments would impose.

Mr. Fain also opposed the rulemaking's ADR proposal. He stated that RCL has 1400 people in its U.S. call centers, and 130 customer service people just to deal with passenger inquiries. He stated concern that the ADR proposal would interfere with the cruise lines' customer relationships, and turn the Commission into "the court of first resort." He expressed concern as to the Commission's capability to handle that role, as well as the resulting increased level of expectation by the traveling public. He also stated concern as to the costs of such proposal, which ultimately he views as unnecessary and a bad idea.

Mr. Fain stated that RCL will be submitting comments, and an economic study, further setting forth these concerns for the Commission's consideration. He stated his hope that, after reviewing the same and other comments, the Commission will withdraw the proposed rule. He further stated his hope that the Commission and the cruise lines will then be able to meet and open a dialogue as to ways to resolve some of the broader consumer protection issues impacting the cruise industry and traveling public.

A handwritten signature in black ink, appearing to read "Delmond J. H. Won", with a long horizontal line extending to the right.

Delmond J. H. Won